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DAIRY PRODUCTION ADJUSTMENT

WHY AND HOW?

(An Address by H. R. Tolley, Assistant Administrator, Agricultural Act, at the Eighth Annual New England Institute of Cooperation, 3:30 P. M., June 21, Burlington, Vermont)

Dairy production is constantly undergoing change. Left to itself, in the long run it accelerates or is retarded in accordance with demand. But that sort of adjustment is an awkward and painful process. The result is an approximate tendency rather than an exact achievement. Production is constantly arriving at a given point of adjustment just a little too late to give comfort to the industry. I want to review some of the possibilities of giving that adjustment more timeliness. I want to examine with you some of the measures we can adopt to give the industry better control of that adjustment process and these measures of course must be considered in the light of present indicated trends of production and consumption.

Since 1875 the purchasing power of dairy cows, or their exchange value for other products, has shown a marked cycle, the peaks of which are about 14 years apart. These peaks have tended to become higher and the drops in purchasing power from them much more severe throughout this period. The profitability of Eastern dairying seems to be closely associated with these changes. When purchasing power of dairy cows is rising rapidly, dairying is profitable. When the purchasing power has been falling rapidly, as it has since 1930, dairying is extremely unprofitable. Such changes tend to attract men to the dairy industry and then crush out a great many dairymen who would like to remain in the industry.

On the basis of past history we might expect purchasing power to remain unfavorable or continue to fall for a year or two longer.

The last peak in the cycle of dairy cow purchasing power was reached during the years 1927, 1928 and 1929. During this period New York State formed a committee to determine from what sources a sufficient milk supply could be obtained. Boston also was considerably alarmed over its milk supply. From this condition of shortage we have, in the space of four short years, gone into a period of over-production and tremendous economic loss. Such changes are harmful to every dairyman who wishes to remain in the dairy business.

Study of this cycle suggests the thought that/^{perhaps} a step toward dairy production control now might stop the tendency for the cycle to become more severe and be an effective step toward bringing about long-time stability in the dairy industry.

For the ten years preceding 1934 milk production has been increasing more rapidly than population. During the decade it increased about 15 per cent while population increased 11 per cent. Production during 1933 was about 105 billion pounds. At the end of 1933 we had left over stocks of manufactured dairy products representing nearly 3,900,000,000 pounds of milk, the largest on record. We started the present year with adjustment further out of line than it had ever been. Butter constituted the major share of these stocks.

For the first five months of this year, milk production has averaged about three per cent below the corresponding period of 1933. The changing conditions resulting from drought make it difficult to estimate the produc-

tion for the balance of the year, but on the most likely assumptions, production in 1934 will be less than in 1933. It may be that the change in production from last year may be the largest in a decade. So much for the production side of the picture.

The rate of milk consumption is somewhat more stable than the rate of production. However, per capita consumption of whole milk and cream which until 1931 had been increasing for nearly a decade, by 1933 had fallen back to the 1927 level. Since the first of the year accumulated stocks of manufactured dairy products have disappeared, due largely to purchases by the Secretary of Agriculture and the Federal Surplus Relief Corporation. While milk production declined three per cent during the first five months of the year, the volume of milk that was used in factory production of butter, cheese, condensed and evaporated milk during the first four months of the year was 8.3 per cent less than in the corresponding period in 1933. The percentage of change by months varied from a decrease of 13.4 per cent in January to a decrease of 3.1 per cent in April. Again complications of drought make it difficult to forecast the extent of utilization of milk in manufactured products for the remainder of the year, but the most likely indications point to a rather marked reduction in volume of milk used in manufactured products during 1934. The drought curtailed production chiefly in the Middle West areas where the bulk of milk production goes into butter and other manufactured dairy products. Production for the fluid milk markets of the East has been only slightly affected by poor pastures, though increased grain prices may make a difference later on.

You are interested particularly in what can be done towards increasing consumption of fluid milk. It is true that milk might well comprise a larger share of the nation's diet. The Bureau of Home Economics has compiled a study of our whole milk needs. Recommendations for per capita consumption vary from 140 quarts annually for a minimum emergency diet to 300 quarts for a liberal diet. A per capita consumption of 250 quarts would meet the needs of an adequate diet. Our present per capita consumption comes into this picture at about the minimum level.

Milk contains the largest assortment of nutrients of any single food material. It is a good foundation for a safe diet, supplying high quality proteins, calcium, vitamin A and the pellagra-preventing factors -- all of them important items frequently lacking in diets. Milk has versatility as a food, supplying needs both of children and adults. In adult consumption we have plenty of leeway for dietary improvement of the kind that milk can supply. Milk is the basis for either building diets or reducing diets. For the latter it supplies the much needed factor of safety.

But while a larger per capita consumption of milk provides an excellent objective, there are obstacles in the way of its attainment without excessively low prices to producers. Low consumer incomes are always accompanied by restricted per capita expenditures for dairy products. Also, there is a widespread failure to realize the importance of milk in the diet. A larger use of dry skim-milk might be encouraged for use in cooking (for which whole milk often is considered too expensive), thus correcting diet deficiency and at the same time increasing total consumption of milk. Increased purchasing power for families of low income and a vigorous educational program for those of better incomes would bring about increased consumption.

Use of public funds to aid people in obtaining milk, who otherwise would not be able to have their share, has been initiated in several instances. The Government relief purchases include milk, butter and cheese, which are distributed to those who otherwise would not obtain them. The dairy program which was recently sponsored by the Agricultural Adjustment Administration included proposals for making additional quantities of milk available to undernourished children. Besides the use of public funds, other steps have been taken to encourage milk consumption.

Some of the milk marketing licenses now in effect provide that milk which would otherwise go into manufactured products at "surplus" prices may be sold for consumption by the needy at a price below the regular fluid milk price. New York City has set up milk stations to distribute milk to families of low incomes at lessened prices. While these measures are aimed directly at stimulating milk consumption, the dairy farmer benefits from them, since they tend to absorb production surplus and establish dietary habits that will improve his market in the long run. In these instances public expenditures are substituting for deficient individual incomes. Pending further recovery in consumers' incomes, similar measures doubtless will be continued but it is important from the standpoint of farmers' incomes that these measures be drafted to prevent diversion of such relief supplies to displace sales of Class One milk. The farmer is willing to do his part, but relief is primarily a responsibility of society in general, not a burden to be thrust upon the farmers alone. Also the question of whether the use of public funds to aid the consumption of milk might be good permanent policy is a pertinent one for discussion.

In the light of the foregoing considerations, and factors connected with farm purchasing power, it appears that for the period immediately ahead

the goal should be to have a volume of milk production somewhere near the present level. This is somewhat below the high production of the period from 1931 to 1933, but is in line with production in the years immediately preceding. Just how the amount suggested should be divided between the various classes of milk and between regions is a question for further study. How can production be maintained at or near the present annual level?

Milk production in the United States presents an uneven pattern with widely different problems applying to different geographical areas. In the Northeast most of your milk production is for the fluid milk market. In the Middle Western dairy regions, only about one-third of the milk production is consumed as fluid milk. The balance is used to produce cream, butter and other manufactured dairy products. Fluid milk, on the one hand, and manufactured dairy products on the other, are separate market classifications. They are dominantly produced in different regions.

That does not mean that the problem created by surplus production in one area is confined to that area. The surplus produced in the manufacturing regions hurts the fluid milk producers by lowering the butter price on which part of their returns are based. At the same time, the surplus produced by the fluid milk producers, which is converted into manufactured products, lowers the price for the producers in the manufacturing regions as well as for fluid milk producers in other areas. Thus, excessive production by either group harms the other group.

The production control program which was recently proposed for dairy products by the Agricultural Adjustment Administration was intended to relieve this situation. Through voluntary cooperation the sale of excess amounts of milk by farmers in either group would have been prevented. Incidentally, in view of the drought, it is interesting to consider what would

have happened if the program had been placed in effect. The program provided for a restriction of sales of milk in all forms from farms of cooperating producers to amounts equaling 80 to 90 per cent of the average sales in the peak production period of 1932 and 1933. Benefit payments would have compensated the participating dairymen for the restriction in their sales. The manner in which individual farmers were to reduce their production was not stipulated. The program was aimed at better incomes for the producers of milk and manufactured dairy products.

Drought and other factors have curtailed production and moved prices upward. This is the result at which the dairy program was aimed. Had the program gone into effect, dairy producers would have been receiving benefit payments for reduction caused by drought in addition to benefits from higher prices. The effect of the drought is centered in a few states, where producers have little or no milk to sell at the higher prices that result from drought production curtailment. The dairy program would not only have given the industry a larger gross income, but it would have made a more equitable distribution of the income over the various producing areas.

Had this program been in effect dairy farmers whose incomes were almost wiped out by the drought would have had a minimum of income from their benefit payments. This would have given them the same form of income insurance which cooperating wheat producers in drought-stricken areas are receiving. While New England farmers are not the principal sufferers from drought in 1934 they also are exposed to hazards of various kinds, and a continuing plan of this sort would serve to protect them in case of future disasters to their business.

As you know, the sales allotment plan which was offered to the industry in a series of regional conferences in April was not placed in

effect, because of sharp disagreement among the various elements in the industry as to what ought to be done. However, the fundamental problem of surplus production and insufficient returns still exists.

Looking to the future, it may be that desired adjustments can be obtained in other ways than the one recently considered.

Cooperative organizations by themselves can do much. Fluid milk markets want a constant supply week in and week out, with fluctuations on account of weather and other factors held to a minimum. The longer-term trend may be determined by changes in population, changes in purchasing power and changes in desire for milk. The cooperatives have helped very materially in adjusting production to demand in markets where they are dominant.

The Agricultural Adjustment Administration could help adjust production in the fluid milk sheds through marketing agreements worked out with the help of the cooperatives and their producers, supplemented by milk marketing licenses. In a market where there is an agreement and a license all producers and all distributors are joined with the cooperative association in a common effort. To control supplies in a milk market and to keep them at all times in balance with demand, it might be worth while to consider the setting of quotas for each of the individual milk producers supplying the market, as is already being done under some of the marketing agreements and licenses for commodities other than milk. On account of the overlapping of milk sheds and the interdependence of markets, adjustments by this method would not be too promising unless all of the important milk markets had agreements and licenses, and unless a production adjustment program were in effect in areas producing milk for manufacture.

Obviously, the producers in a given market could not be expected to restrict their production or sales on a quota plan if they were to be exposed to competition from fluid milk supplies coming in from outside their milk shed. Some degree of protection is already given fluid milk producers through the provision in a number of licenses that new producers must go through a period of probation. Other arrangements of a similar nature could, if necessary, be worked out to supplement the quota system. These would not be tariff walls conferring special privilege on some one group of dairymen, but rather devices calculated to assist in carrying out a broad national program of dairy production adjustment, with a view to conferring equitable benefits on all milk producers.

It is obvious also that in carrying out such a program, either the marketing agreements of the kind I have described would have to be made effective in all markets simultaneously, or else protective arrangements of a temporary nature would have to be made in those markets where agreements were in effect.

The problem of working out agreements and licenses for many markets is complicated by the existence of Milk Control Boards in some states. Where such boards exist, the Agricultural Adjustment Administration does not enter a market until a basis of operation mutually satisfactory to State and Federal authorities has been evolved.

Turning to the manufacturing areas, it may be possible in time to control dairy production through adjustments in feed crop production. It has been suggested that a simple but effective way of achieving a balanced agriculture would be to apply the processing tax-benefit payment system to the task of getting land from cultivated crops into pasture and forage and woodland--in other words, to bring about the shift from an intensive to an extensive type of farming so urgently needed.

If enough land were put into grass and forage crops, total crop production, and in turn total livestock production, would be brought into line with available markets. There would still be the question of adjustments between commodities. But as long as we have a system of free prices, sooner or later these adjustments would make themselves in response to price changes. Farmers would naturally devote their acres of cultivated land to the crops they found most profitable.

More land in pasture and forage crops and less in concentrated feed crops would have a marked influence on dairy production. The total quantity of feed for livestock in the country would be lessened and hence the total volume of production of livestock and livestock products would be brought more nearly in line with the goal which producers are trying to reach. It would result in a downward adjustment in dairy production in the feed grain areas unless prices of dairy products were kept relatively higher than the prices of beef cattle, hogs, and other classes of livestock which compete for our national feed supply. At the same time dairy production costs would be reduced, for as has been pointed out by the Bureau of Dairy Industry of the United States Department of Agriculture, dairy rations containing greater proportions of pasture, hay and forage are more economical than the rations containing high proportions of concentrates that are now being used by large numbers of dairy farmers.

A feed crop adjustment program of this character in the diversified farming regions might help remove some of the competition which dairy farmers of New England have been feeling, insofar as any reduction in production would tend to decrease the pressure of milk from surplus producing regions on the New England milk sheds, and, at the same time, help dairy farmers of the Mid West to reduce their expenses of production. It must not be

overlooked, of course, that a downward adjustment in the production of feed grains would tend to increase the market price of those grains, and that this would tend to increase to some extent the production costs of those dairy farmers who purchase part of all of their concentrated feeds. But for the farmers in the eastern milk sheds this might be more than offset by the advantages of decreased competition and in the long run dairy prices always reflect grain price improvement. As Mr. Davis already has said to this group; In the past the eastern dairy industry has been most prosperous in periods when grain prices were high.

Thus it seems that one of the possibilities for a nation-wide dairy adjustment program lies in a series of marketing agreements and licenses for the important milk markets together with a feed crop adjustment program for the regions where concentrated feeds are grown. Important provisions in the marketing agreements and licenses would pertain to adjustment of production within the milk sheds. Under the Agricultural Adjustment Act a feed crop production program such as that suggested here can be carried out by contracts of individual farmers with the Secretary of Agriculture. Many farmers and farm leaders in the Corn belt and Middle West are recommending that a program of this kind be inaugurated next year. Under the marketing agreements, production adjustment provisions could be worked out in accordance with the conditions surrounding each individual market. Crop adjustment contracts with individual farmers, and marketing agreements as well, can take into account significant differences between regions, and they can be made flexible enough to allow for adjustments in operations that may be made desirable from time to time either by fortuituous changes in supplies due to drought or bountiful yields, or by increases or decreases in the demand for farm products.

As Mr. Davis indicated in his address last night, the Administration does not propose to formulate plans in Washington and impose them upon the farmers of New England. If New England dairy farmers are interested in obtaining the benefits which may be possible under the Agricultural Adjustment Act, it is up to them to make their wishes known, to help work out the program, and to participate actively in its execution after it has been formulated.

